



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MCCRACKEN COUNTY SHERIFF**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
CALENDAR YEAR 1999
FEE AUDIT

Financial Condition:

The Sheriff remitted \$803,389 of excess fee to the fiscal court. The McCracken County Fiscal Court approved a fee pooling system for the Sheriff. Under the fee pooling system, revenues net of direct expenses of the Sheriff's office are paid to the County Treasurer the subsequent month. Therefore, the Fiscal Court pays the expenses of the Sheriff's office.

Comment and Recommendation:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$74,825 To Protect Deposits

Financial Notes:

Grants

During calendar year 1999, the Sheriff received proceeds from three federal grants. The federal grants were the Community Oriented Policing Service Grant in the amount of \$15,356, the Traffic Alcohol Program in the amount of \$15,196 and Western Area Narcotic Team in the amount of \$3,557. All proceeds were turned over to the Fiscal Court to pay appropriate expenditures.

Kentucky Law Enforcement Incentive Program

The McCracken County Sheriff is involved in the Kentucky Law Enforcement Incentive Program administered by the Department of Justice. This program is designed to encourage officers to become more adequately trained. During 1999, the Sheriff received \$74,742 under this program.

Drug Enforcement Fund

The Sheriff has custody of a bank account that contains the Drug Fund and Drug Awareness and Resistance Education Fund. The account is funded by donations and court ordered forfeitures and contributions. The funds are used to pay for various drug enforcement operations, equipment, and education. As of January 1, 1999, the account balance was 70,765; during the year, funds were received in the amount of \$25,328 and funds were disbursed in the amount of \$36,474, leaving a balance of \$59,619 at December 31, 1999.

Related Party Transactions

Dennis Hines, Special Deputy (Unpaid), dba Dennis Hines Automotive, services McCracken County vehicles. Dennis Hines Automotive was paid \$3,982 during calendar year 1999 from the Drug Fund. Eugene Ceglinski, Special Deputy (Unpaid), dba Ceglinski Animal Clinic, provides medical services to McCracken County Sheriff's K-9 units. Ceglinski Animal Clinic was paid \$979 during calendar year 1999 from the Drug Fund.

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Danny Orazine, McCracken County Judge/Executive

Honorable Frank Augustus, McCracken County Sheriff

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of McCracken County Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$74,825 To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated July 31, 2000, on our consideration of the County Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 31, 2000

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

Federal Grants:

Community Oriented Policing Service - Making Officers		
Redeployment Effective	\$ 15,356	
Traffic Alcohol Program	15,196	
Western Area Narcotics Team	<u>3,557</u>	\$ 34,109

Fiscal Court		74,269
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State Fees For Services:

Kentucky Law Enforcement Incentive Program	\$ 74,742	
Finance and Administration Cabinet	31,008	
Return of Fugitives	2,310	
Mental Patient Transport	<u>7,649</u>	115,709

Circuit Court Clerk:

Sheriff Security Service	\$ 34,985	
Fines and Fees Collected	<u>7,430</u>	42,415

County Clerk - Delinquent Taxes		6,768
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Commission On Taxes Collected		484,394
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Fees Collected For Services:

Auto Inspections	\$ 39,261	
Accident and Police Reports	684	
Serving Papers	<u>59,564</u>	99,509

Other:

Carrying Concealed Deadly Weapon Permits	\$ 17,715	
Sheriff Fees	51,248	
Execution	3,669	
Advertising Fees	33,300	
Arrest Fees	8,850	
Insurance Reimbursement	7,785	
Miscellaneous	<u>447</u>	123,014

Interest Earned		35,609
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Due From Tax Account For Repayment of Change Fund*		<u>5,000</u>
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Gross Receipts (Carried Forward)		\$ 1,020,796
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MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(Continued)

Gross Receipts (Brought Forward) \$ 1,020,796

Disbursements

Operating Disbursements:

Payments to County Treasurer-

Traffic Alcohol Program	\$	15,196	
Western Area Narcotics Team		3,557	
Kentucky Law Enforcement Incentive Program		74,742	
Community Oriented Policing Service - Making Officers			
Redeployment Effective		15,336	
Carrying Concealed Deadly Weapon Permits		12,035	
Deputy Fees		10,742	
Insurance Reimbursement		<u>2,293</u>	\$ 133,901

Other Charges-

Executions	\$	3,669	
Civil Papers		80	
Refunds		85	
Jury Expense		214	
Advertising		56	
Loan To Tax Account For Change Fund*		5,000	
Miscellaneous		<u>133</u>	<u>9,237</u>

Total Disbursements 143,138

Net Receipts \$ 877,658

Less: Statutory Maximum 74,269

Excess Fees Due County for Calendar Year 1999 \$ 803,389

Payments to County Treasurer - Monthly* 803,389

Balance Due at Completion of Audit \$ 0

*The Sheriff loaned the tax account \$5,000 from the fee account during calendar year 1999 to be used as a change fund for 1999 tax collections. This \$5,000 was then repaid to the fee account and subsequently paid to the fiscal court as part of the October 2000 monthly payment.

The accompanying notes are an integral part of the financial statement.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Fee Pooling

The McCracken County Fiscal Court approved a fee pooling system for the Sheriff. Under the fee pooling system, revenues net of direct expenses of the Sheriff's office are paid to the County Treasurer the subsequent month. Therefore, the Fiscal Court pays the expenses of the Sheriff's office.

D. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCRACKEN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1999
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent. Hazardous covered employees are required to contribute 7.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 17.55 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of January 13, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$74,825 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 13, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 177,169
Uncollateralized and uninsured	<u>74,825</u>
Total	<u>\$ 251,994</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 4. Grants

During calendar year 1999, the Sheriff received proceeds from three federal grants. The federal grants were the Community Oriented Policing Service Grant in the amount of \$15,356, the Traffic Alcohol Program in the amount of \$15,196 and Western Area Narcotic Team in the amount of \$3,557. All proceeds were turned over to the Fiscal Court to pay appropriate expenditures.

Note 5. Kentucky Law Enforcement Incentive Program

The McCracken County Sheriff is involved in the Kentucky Law Enforcement Incentive Program administered by the Department of Justice. This program is designed to encourage officers to become more adequately trained. During 1999, the Sheriff received \$74,742 under this program.

Note 6. Drug Fund and Drug Awareness and Resistance Education Fund

The Sheriff has custody of a bank account that contains the Drug Fund and Drug Awareness and Resistance Education Fund. The account is funded by donations and court ordered forfeitures and contributions. The funds are used to pay for various drug enforcement operations, equipment, and education.

As of January 1, 1999, the Drug Fund and Drug Awareness and Resistance Education Fund had a beginning balance of \$70,765. During the year, \$25,328 of funds was deposited, \$28,474 was disbursed for operating expenditures and \$8,000 was transferred to the drug cash box. This left a balance of \$59,619 at December 31, 1999.

The \$8,000 transferred to the drug cash box was used by officers to spend on drug enforcement cases. The Sheriff's records indicated that the drug cash box had a \$0 cash balance as of January 1, 1999, \$8,000 was received from the Drug Fund and Drug Awareness and Resistance Education Fund, \$5,710 was spent on drug cases, leaving a cash balance of \$2,290 as of December 31, 1999.

Note 6. Related Party Transactions

Dennis Hines, Special Deputy (Unpaid), dba Dennis Hines Automotive, services McCracken County vehicles. Dennis Hines Automotive was paid \$3,982 during calendar year 1999 from the Drug Fund. Eugene Ceglinski, Special Deputy (Unpaid), dba Ceglinski Animal Clinic, provides medical services to McCracken County Sheriff's K-9 units. Ceglinski Animal Clinic was paid \$979 during calendar year 1999 from the Drug Fund.

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COMMENT AND RECOMMENDATION

MCCRACKEN COUNTY
FRANK AUGUSTUS, SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 1999

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$74,825 To Protect Deposits

On January 13, 1999, \$74,825 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Darla Augustus, Finance Officer's Response:

The bank was monitoring deposits on a monthly basis, but the collateral security agreement required the bank to pledge collateral of the kind and character permitted by the Public Funds Law, of sufficient amount and market value to provide adequate Collateral for the funds of the sheriff's office. Deposits were not protected, because the bank had was monitoring deposits on a monthly basis instead of a daily basis. Funds are now monitored on a daily basis.

PRIOR YEAR COMMENT AND RECOMMENDATION:

The McCracken County Ethics Commission was requested to review financial transactions with Emergency Equipment Specialists Of \$5,451 and Dennis Hines Automotive Of \$16,466 for calendar year 1998. The Commission has not issued an opinion on these transactions, however they adopted a new Ethics Code effective February 27, 2000.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the McCracken County Sheriff's financial statement as of December 31, 1999, and have issued our report thereon dated July 31, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McCracken County Sheriff's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Danny Orazine, McCracken County Judge/Executive
Honorable Frank Augustus, McCracken County Sheriff
Members of the McCracken County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 31, 2000

